

Message Text

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C O N F I D E N T I A L SAN JOSE 2502

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E.O. 11652: GDS

TAGS: ETRD, CS

SUBJECT "BANANA WAR" SEEMS TO BE REACHING CRISIS POINT

REF: SAN JOSE 2468

1. A NUMBER OF THINGS ARE COMING TOGETHER WHICH SUGGEST TO US THAT THE "BANANA WAR" IS RAPIDLY COMING TO A HEAD WITH THE POSSIBILITY THAT NEXT WEEK WILL BE PARTICULARLY CRITICAL. MAJOR FACTORS ARE:

A. STANDARD HAS ANNOUNCED SUSPENSION OF OPERATIONS ON ITS OWN PLANTATIONS EFFECTIVE MONDAY, JULY 1.

B. MINISTER OF ECONOMY, INDUSTRY AND COMMERCE SANCHEZ IN A PRESS CONFERENCE JUNE 27 ASSERTED THAT THE GRACE PERIOD ON THE TAX ISSUE WOULD END ALSO ON MONDAY AND THAT THE BANANA TAX WOULD BE COLLECTED, REPORTEDLY IN CASH, FROM THAT DATE AND

C. A UNITED NEGOTIATING TEAM, THIS TIME HEADED BY HARVEY JOHNSON OF BOSTON, IS SCHEDULED ALSO TO ARRIVE ON MONDAY IN ORDER TO RESUME NEGOTIATIONS WITH THE GOCR FOR CONTRACT
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AMENDMENT TO ALLOW FOR SOME SORT OF EXPORT TAX. MOREOVER,

THERE ARE SIGNS THAT THE STRIKE WHICH HAS CLOSED DOWN UNITED'S PACIFIC COAST OPERATIONS MAY BE REACHING A TURNING POINT.

2. WITH REGARD TO THE FIRST ITEM ABOVE, STANDARD'S ANNOUNCEMENT HAS PREDICTABLY CREATED A NEW RASH OF ANTI-COMPANY SENTIMENT IN THE PRESS. THE IMPLICATIONS OF COURSE ARE MANY. IF STANDARD CARRIES THROUGH WITH THIS THREAT THERE WOULD BE WIDESPREAD UNEMPLOYMENT IN THE ALREADY DEPRESSED ATLANTIC REGION AND, DEPENDING UPON HOW LONG THE SHUTDOWN LASTS, THE POSSIBILITY OF REAL SUFFERING ONCE THE WORKERS RUN THROUGH TERMINAL BONUSES. MOREOVER, EVEN THOUGH STANDARD SAID IT WOULD CONTINUE PURCHASING FRUIT FROM ITS USUAL INDEPENDENT SUPPLIERS, THERE IS A PROBLEM HERE SINCE STANDARD SEEMS TO BE SUGGESTING THAT THE SUPPLIERS, NOT STANDARD, WOULD HAVE TO BEAR THE BURDEN OF THE TAX. (THIS INTERPRETATION IS AGAINST THE SPIRIT OF THE NEW LAW.) THIS WOULD MEAN THAT IF STANDARD HOLDS FIRM TO THIS POSITION IT WOULD BE DOUBTFUL IF THE INDEPENDENTS COULD LONG CONTINUE IN OPERATION THUS THE PROSPECT WOULD BE FOR SOME 10,000 WORKERS --NOT JUST 4,000 -- UNEMPLOYED AND NO BANANAS MOVING OUT OF THE ATLANTIC REGION. ON THE ASSUMPTION THAT STANDARD WOULD MAKE UP ITS VOLUME LOSSES ELSEWHERE (EMINENTLY FROM ECUADOR) AND THAT BANANA PRICES WOULD BE ONLY MARGINALLY AFFECTED BY SUSPENSION OF STANDARD'S SHIPMENTS FROM COSTA RICA, THE PROSPECT IS NOT ONLY FOR THE IMMEDIATE ADVERSE IMPACT ON BANANA WORKERS BUT FOR THE ADDED BALANCE OF PAYMENTS PROBLEMS IMPLICIT IN EXPORT EARNINGS LOST.

3. I BELIEVE THAT THE ABOVE SET OF CIRCUMSTANCES MAKE IT IMPERATIVE THAT THE USG UNDERTAKE A HIGH LEVEL, EMERGENCY REVIEW OF THE OVERALL BANANA SITUATION TAKING INTO FULL ACCOUNT BOTH U.S. AND BANANA PRODUCER COUNTRY ECONOMIC, POLITICAL AND INTERNATIONAL RELATIONS CONSIDERATIONS. TWO ADDITIONAL ELEMENTS BEARING ON THE SITUATION RIGHT AT THIS MOMENT SEEM TO ME TO BE:

A. THE GOCR-UNITED NEGOTIATIONS OFFER THE POSSIBILITY FOR A BREAK-THROUGH. A SOLUTION OF STANDARD'S PROBLEMS IS PROBABLY CONTINGENT UPON UNITED WORKING OUT SOME REASONABLE COMPROMISE ON THE TAX WITH THE GOCR. (THE FIGURE OF 25 CENTS PER BOX
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CONTINUES TO BE RUMORED AROUND.)

B. IF STANDARD DOES SUSPEND OPERATIONS PRESSURE WILL GROW FOR EXPROPRIATION ACTION. THERE ARE HINTS THAT THE GOCR IS NOW DRAWING UP CONTINGENCY PLANS FOR THIS EVENTUALITY BUT OUR READING OF THE PRESENT ADMINISTRATION IS THAT THEY WILL NOT REPEAT NOT BE LIKELY TO TAKE RASH ACTION. (VICE MINISTER OF ECONOMY, INDUSTRY AND COMMERCE ASKED US TODAY

FOR COPIES OF HICKENLOOPER AND GONZALEZ AMENDMENTS AS WELL AS ANTI-TRUST ACT INFO.)

C. WE ARE COVINCED THAT THE GOCR REALLY DOES NOT WANT TO BUY OUT STANDARD'S HOLDINGS AND WE CONTINUE TO BELIEVE-- POSSIBLY INCORRECTLY--THAT STANDARD WOULD ALSO PREFER TO STAY IF IT CAN SEE A COMPROMISE IT CAN LIVE WITH. (THIS OF COURSE ASSUMES THAT STANDARD UNBEKNOWN TO US HAD NOT MADE A PRIOR DECISION THAT IT WAS IN ITS LONG TERM INTEREST TO GET OUT OF COSTA RICA AND THAT THE TAX WAS JUST A PRETEXT.

4. TAKING ALL OF THE ABOVE INTO ACCOUNT I CAN ONLY CONCLUDE THAT THE USG INTEREST IN THIS MATTER CLEARLY TRANSCENDS THE NARROW INTEREST OF THE BANANA COMPANIES CONCERNED AND IS MUCH BROADER THAN A QUESTION OF LAW UNDER THE ANTI-TRUST ACT OR A QUESTION OF OUR VERY DEFENSIBLE POSITION ON THE CARTELIZATION APPROACH TO INCREASING COMMODITY PRICES. ALL OF THESE FACTORS ENTER IN AND ALL ARE IMPORTANT. HOWEVER, IN THE HIGH LEVEL, EMERGENCY REVIEW I SUGGEST IN PARAGRAPH 3 ABOVE, I URGE THAT PARTICULAR ATTENTION BE GIVEN TO ANTI-TRUST CONSIDERATIONS WITH A VIEW TOWARDS DETERMINING WHETHER ITS LEGALLY POSSIBLE--AND WHETHER THE TIME HAS NOT ARRIVED-- TO BRING TOP LEVEL REPRESENTATIVES OF BOTH COMPANIES TOGETHER IN THE SAME ROOM WITH USG OFFICIALS IN WASHINGTON TO SEE EXACTLY WHERE WE STAND AND WHERE WE GO FROM HERE. WE SHOULD ALSO TAKE A HARD LOOK AT OUR OWN POSITION ON THE TAX. NOTHING WOULD BE MORE COUNTERPRODUCTIVE THAN FOR US TO TAKE A HARD LINE POSITION ON PRINCIPLE IF THE PRODUCERS AND THE COMPANIES SEEM READY TO AGREE ON A COMPROMISE AMONG THEMSELVES.
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